



Annual Report 2003

AlbertaCentral



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AlbertaCentral

Financial Highlights

Page 4

Financial Statements

Page 10

Alberta Central

Five Year Review

Page 24

Alberta Credit Unions

Five Year Review

Page 25



AlbertaCentral

WELCOME TO ALBERTA CENTRAL'S 2003 ANNUAL REPORT

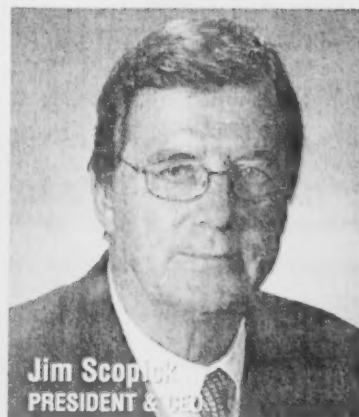
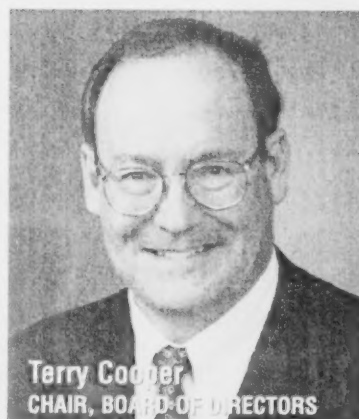
We are pleased to present Alberta Central's annual report for 2003. Its objective is to provide our members, partners, and employees with an overview of the past year—our financial performance, our major accomplishments and initiatives, our focus and business philosophy, and our strategic direction looking into the future.

This year, we took a new approach to designing our annual report. It consists of two documents: one containing traditional financial performance information; the second explaining the complex structure of our system and focusing on the contribution of the businesses that comprise our integrated financial products and services network. The partners, joint ventures, and the organizations we invest in were a large part of our achievements over the past year.

We are delighted to report that 2003 was another stellar year for Alberta Central and the Alberta credit union system. Solid financial results evidence our overall success this year and are available for your review as part of this document.

The "Strategic Links" part of the report highlights Alberta Central's place in our strategic partnership network. It provides an overview of our partners and joint ventures and shows how we combine our strengths and leverage our core competencies to achieve a common goal—to deliver the best possible service.

On behalf of the Board and the management team, we would like to express our appreciation to our team of employees and our strategic partners for their commitment, dedication and hard work, and to our members and shareholders for their continued trust and support.



AlbertaCentral

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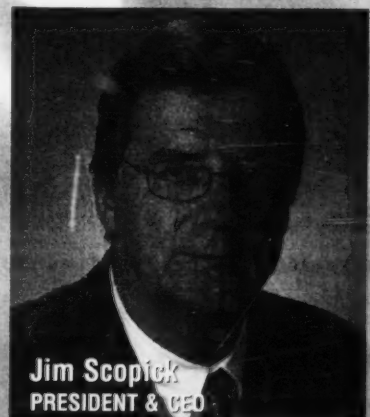
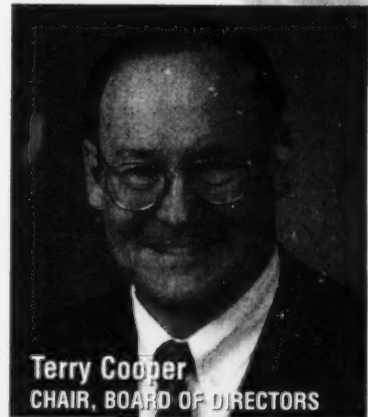
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The Alberta credit union system is comprised of 61 credit unions and Alberta Central. The system has a total of 201 branches across the province serving over 635,000 members. The Alberta credit union system had a solid year of growth, surpassing the \$9 billion asset mark in 2003.

System equity experienced exceptional growth of 17%, once again outpacing asset growth.

The Alberta credit union system demonstrated superior financial performance in 2003 while staying true to its roots and maintaining a high level of member satisfaction.

Alberta Central is the financial services and support services provider to Alberta's 61 credit unions. Central's mission is:

"To support credit unions in meeting the expectations of members, through the leadership and excellence of our people, products, and services".

Through its 250 knowledgeable and dedicated staff and its strategic joint ventures, Central delivers its support to credit unions in the areas of finance, strategic planning, government relations, administration services, payment and statement services, training, human resources and marketing consulting, and information technology solutions.

Alberta Central's asset base is over \$1.1 billion. Central's strong financial performance is a function of the close strategic relationship Central has with its member credit unions, its success in expanding its base of business by leveraging its core operating competencies, and its solid track record of managing a profitable investment and loan portfolio while maintaining a low risk profile.



AlbertaCentral

ALBERTA CENTRAL'S SERVICES

Alberta Central is a member-focused, performance-driven organization dedicated to delivering high quality personalized services to its member credit unions. One of Alberta Central's key roles is to perform the functions of a central banker, providing investment, lending, and statutory liquidity services for Alberta credit unions. Central's goal is to safeguard the financial stability of the credit union system while creating new business growth avenues for credit unions. In support of this goal, Central offers its members a wide range of deposit and lending products and continually seeks investment and lending opportunities to help credit unions manage excess liquidity and improve earnings.

Alberta Central represents credit union interests to the provincial government, strategic partners, and public audiences. With the diversity of credit unions' service needs and business strategies, Central plays a key role in facilitating communications and joint strategy development within the system, while ensuring equitable member participation in setting and implementing system strategic direction.

Its joint venture partners allow Alberta Central to enhance its services to credit unions and to offer a full suite of products, services and innovative solutions. Credit Union Payment Services (CUPS) looks after credit unions' payment processing needs and supplies integrated value-added technologically advanced services. Celero Solutions, Central's technology joint venture, supports credit unions' competitiveness in the marketplace by providing state-of-the-art information technology solutions. Through Credit Union Organizational Support (CUOS), credit unions gain access to marketing, training, human resources, and business consulting services. CU Electronic Transaction Services (CUETS) partners with credit unions to provide card and merchant services to their members.

And finally, Central has invested in organizations which offer wealth management services (Credential Financial Incorporated and Ethical Funds Incorporated), insurance (The CUMIS Group and The Co-operators) and trust services (Co-operative Trust Company of Canada) to ensure that our system has core expertise in all the functions necessary to provide and support a full product suite for our clients. As well, our association with Canadian Central connects us to the Bank of Canada, the Canadian Payments Association, and Interac.

Our philosophy of strategic cooperation and mutual support within the system, combined with unquestionable expertise of our partners and dedication of our people, positions us to deliver the best possible service to members.

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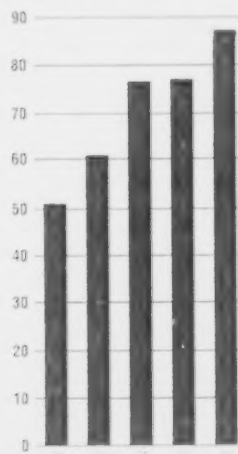
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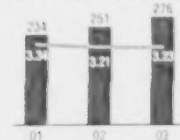
ALBERTA CREDIT UNIONS EARNINGS

Operating results achieved another record in 2003 with \$87 million in earnings exceeding last year's previous record of \$77 million (Chart 1). There was a slight improvement in 2003 in net financial income, which increased as a percentage of average assets to 3.23% as compared to 3.21% in 2002. Other income was also up a small amount at 0.94% of average assets as compared to 0.93% in 2002. While operating costs were up by \$21 million, growth in the system helped improve efficiencies, as operating expenses as a percentage of average assets were reduced from 3.06% in 2002 to 3.02% in 2003.

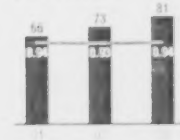
Chart 1
Alberta Credit Unions
Earnings
millions of dollars



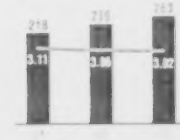
NET FINANCIAL INCOME



OTHER INCOME



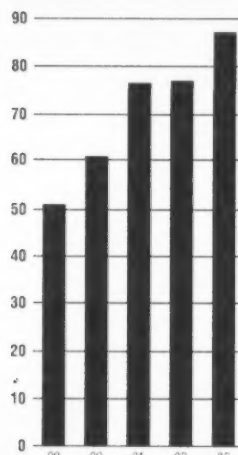
OPERATING EXPENSES



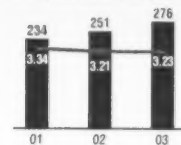
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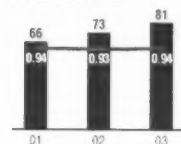
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Alberta Credit Unions
Earnings
millions of dollars



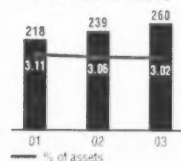
NET FINANCIAL INCOME



OTHER INCOME



OPERATING EXPENSES



CREDIT UNION ASSETS

Another milestone was reached in 2003 as credit unions exceeded \$9 billion in assets (Chart 2). This was achieved by credit unions having solid deposit growth of 8.6% and by adding to equity with strong operating results. Loan growth of \$900 million (13.8%) exceeded deposit growth of \$655 million (8.6%) as credit unions continued to employ strategies to utilize excess liquidity. The largest loan growth was in residential mortgages, which grew by \$439 million, or 13.0%. Residential mortgages now represent 51% of total system loans. The most significant growth in deposits was in term deposits, which increased \$333 million (10.1%). The effects of loan growth outpacing deposit growth resulted in total non-statutory deposits declining by \$176 million during the year.

CREDIT UNION EQUITY

The strong performance of Alberta credit unions in 2003 was also reflected in changes in equity. Total equity increased \$96 million in equity. Total equity increased \$96 million from \$563 million in 2002 to \$658 million in 2003 (Chart 3). Equity at the end of 2003 amounted to 7.3% as a percentage of assets. The retained earnings component of equity increased \$36 million to \$247 million at the end of 2003. The level of earnings, assets, and equity all represent new records for the Alberta system.

Chart 2
Alberta Credit Unions Assets
billions of dollars

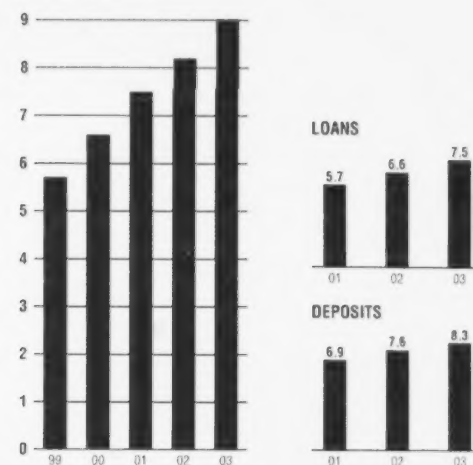
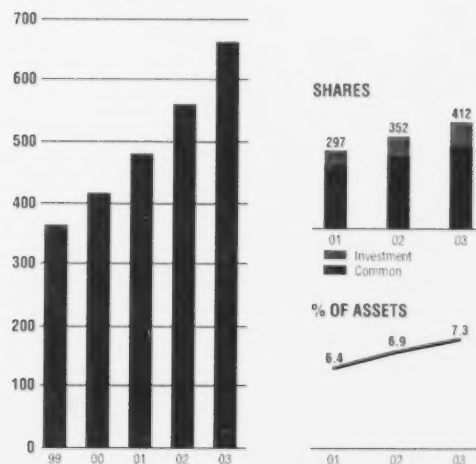


Chart 3
Alberta Credit Unions Equity
millions of dollars



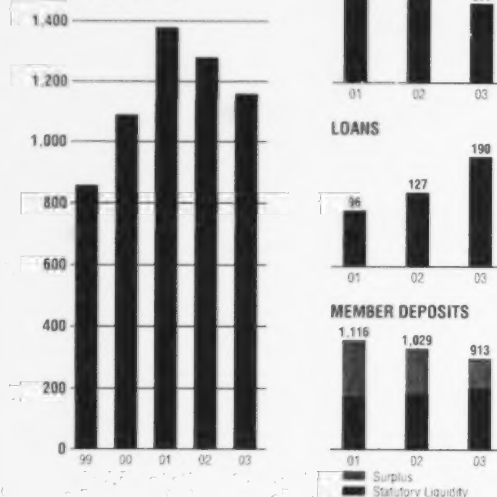
ALBERTA CENTRAL ASSETS

Alberta Central's assets were \$1.16 billion at the end of the year, a decline of 8.9% (Chart 4). The decrease was a reflection of the credit unions' continued experience of loan growth exceeding deposit growth. This was caused by a combination of strong loan demand and credit unions being less aggressive in bidding for deposits. The effect on Alberta Central's assets was a reduction in total investments from \$1,048 million at the end of 2002 to \$877 million at the end of 2003. Loans, on the other hand, increased from \$127 million in 2002 to \$190 million in 2003. This included an increase in credit union loans from \$55 million to \$87 million, a further indication of reduced liquidity in the system.

Chart 4

Alberta Central Assets

millions of dollars



OPERATING LIQUIDITY

Chart 5 shows the changes in Alberta Central's sources of funding. Growth in the system was reflected in the increase in credit unions' liquidity requirements, which includes statutory liquidity deposits and common shares. Offsetting this was a decrease in other deposits.

The growth in assets for the Alberta system directly resulted in an increase of over 10% in statutory deposits from \$562 million in 2002 to \$620 million by the end of 2003. Other deposits experienced a drop of 37% from \$475 million to \$299 million as a result of the strong demand for liquidity in the system.

The decline in liquidity in the system directly translates into a decline in Alberta Central's liquidity, which is moving closer to levels not seen since the latter part of the 90's. Alberta Central continuously monitors its liquidity levels to ensure that Central is in compliance with the statutory requirement that liquid assets be at least 6% of credit union system assets. The statutory requirement for 2003 was exceeded by \$225 million.

MEMBERS' EQUITY

Members' equity increased to \$163 million at December 31, 2003 as compared to \$146 million at the end of 2002 (Chart 6). The bulk of this growth was through an increase in common shares, which grew \$14 million in 2003. Credit unions are required to maintain 1.5% of previous year end assets in common shares. Retained earnings grew \$2.7 million to \$25.6 million.

Chart 5
Alberta Central
Operating Liquidity
millions of dollars

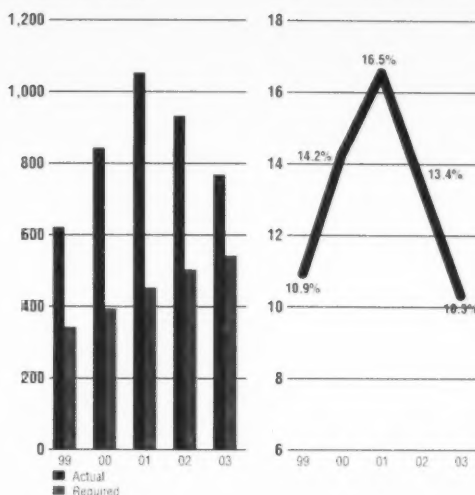
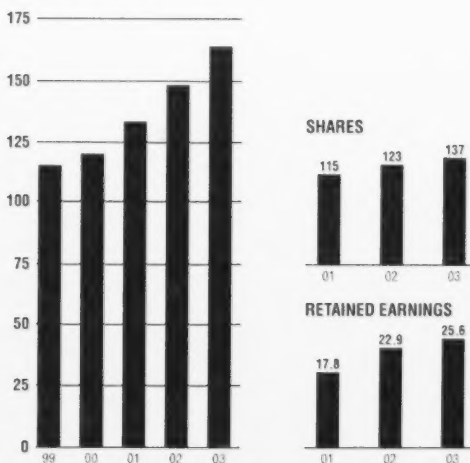


Chart 6
Alberta Central
Members' Equity
millions of dollars



NET OPERATING INCOME

Alberta Central's operating revenues and expenses arise from corporate operations plus the proportionate share of the operating revenues and expenses of its joint ventures.

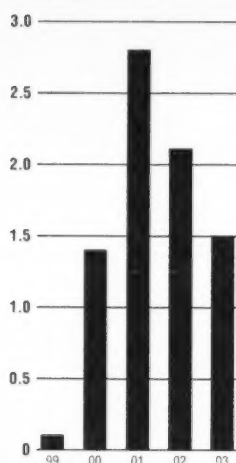
Alberta Central transferred the assets and operations of its former information technology division to Celero Solutions (Celero) on January 1, 2003. While Celero is structured legally as a joint venture, it does not qualify as a joint venture for accounting purposes. Accordingly, the operating income and expenses shown in Alberta Central's 2003 results include only Central's share of the net results of Celero and do not include a share of Celero's operating revenues and expenses.

The effect of this accounting requirement is to remove approximately \$20 million in revenues and expenses from Central's income statement as compared to 2002; the bottom line, however, is not affected.

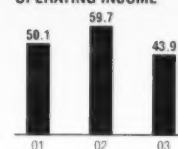
An important goal of Alberta Central is to generate a positive return from net operations. Earnings from Central's joint ventures now contribute significantly to the achievement of this goal. Alberta's proportional share of the following joint ventures is included in the consolidated results: CU Electronic Transaction Services, Credit Union Payment Services, Credit Union Organizational Support and Celero Solutions. Chart 7 illustrates the overall positive effect of corporate and joint venture operations.

Chart 7

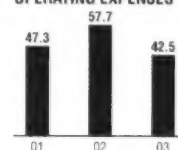
Alberta Central Net Operating Income millions of dollars



OPERATING INCOME



OPERATING EXPENSES



EXTERNAL REVENUE



NET FINANCIAL INCOME

The average prime interest rate was up 39 basis points in 2003 as compared to 2002, and the average three month Bankers' Acceptance rate was approximately 30 basis points higher in 2003. This helped contribute to the higher levels of financial income and expense. Net financial income increased from \$6.6 million in 2002 to \$9.9 million in 2003 as interest earned on securities and loans increased by more than the interest costs on funding (Chart 8).

EARNINGS AND DISTRIBUTIONS

Central recorded outstanding results in 2003 due to strong operating and financial margin performance. Earnings before patronage dividends, share dividends and taxes were \$11,014,000, Central's best ever from continuing operations. Earnings in 2002 were higher due to a \$3.8 million one time gain.

These results enabled the payment of a share dividend of \$4,141,000 plus a \$3 million patronage dividend, another Central record. The patronage dividend represents a 7.35% rebate on all products and services credit unions purchased from Central plus a 7 basis point return on financial transactions.

Chart 9 illustrates the after-tax distribution of earnings over the past five years plus the allocation to retained earnings which totalled \$2,720,000 in 2003.

Chart 8
Alberta Central
Net Financial Income
millions of dollars

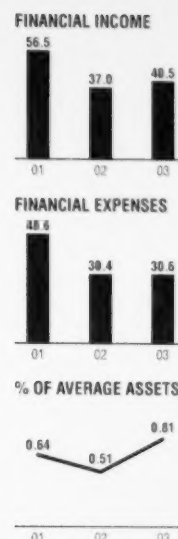
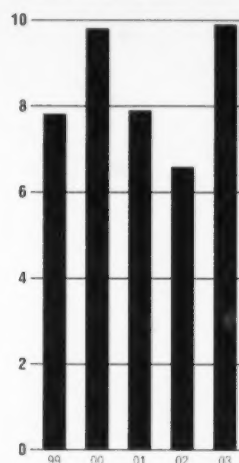
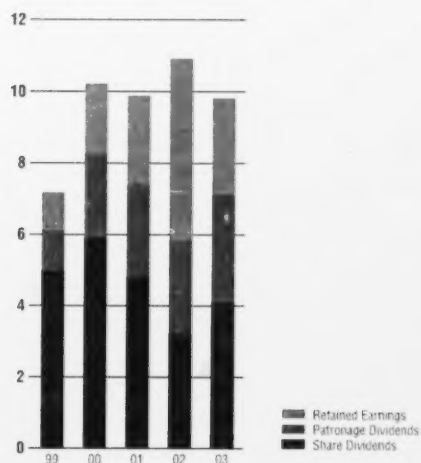


Chart 9
Alberta Central
Earnings Distribution
millions of dollars



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Credit Union Central Alberta Limited (Alberta Central) were prepared by management, who are responsible for the integrity and fairness of the data presented. Generally accepted accounting principles have been applied and management has exercised its judgement and made best estimates where deemed appropriate. Financial information appearing throughout this Annual Report is consistent with the financial statements.

Alberta Central's accounting and related financial controls are designed, and supporting procedures maintained, to provide reasonable assurance that the financial records are complete and accurate, and that assets are safeguarded against loss from unauthorized use or disposition. These supporting procedures include the careful selection and training of qualified staff, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines of business throughout Alberta Central. The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all aspects of Alberta Central's operations.

Both the federal and provincial regulators of financial institutions conduct examinations and make such enquiries into the affairs of Alberta Central as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that Alberta Central is in sound financial condition.

The Audit and Finance Committee of the Board of Directors, composed entirely of outside Directors, reviews the financial statements before such financial statements are approved by the Board of Directors and submitted to the Members of Alberta Central. The Committee reviews the audit plans of the internal and external auditors, the results of their audits and management's response to any identified recommendations for the improvements in internal control. The Committee is also responsible for recommending the appointment of the external auditors to the Board of Directors.

PricewaterhouseCoopers LLP, the independent auditors, have examined the financial statements of Alberta Central in accordance with generally accepted auditing standards and have expressed their opinion upon completion of such examination in the following report to the Members. The auditors have full access to, and meet periodically with, the Audit and Finance Committee to discuss audit matters.

February 4, 2004



J. R. Scopick
President &
Chief Executive Officer



B.J. Johnson
Executive Vice-President

AUDITORS' REPORT

To the Members of Credit Union Central Alberta Limited

We have audited the balance sheet of Credit Union Central Alberta Limited (Alberta Central) as at December 31, 2003 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Alberta Central's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Alberta Central as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles in Canada.

February 4, 2004

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

BALANCE SHEET

December 31 (thousands of dollars)

2003

2002

ASSETS

Cash and items in transit	\$ 52,529	\$ 52,981
Securities (Note 2)	884,250	1,057,570
Loans (Note 3)	190,576	127,125
Other assets (Note 4)	22,444	22,981
Capital assets (Note 5)	10,439	13,566
	\$ 1,160,238	\$ 1,274,223

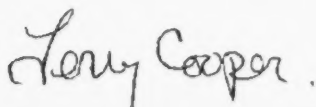
LIABILITIES

Accounts payable	\$ 19,009	\$ 16,960
Members' deposits (Note 6)	918,427	1,036,349
Loans and notes payable (Note 7)	60,002	74,805
	997,438	1,128,114

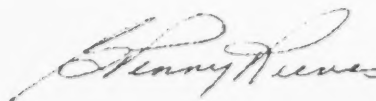
MEMBERS' EQUITY

Common share capital (Note 10)	137,171	123,200
Retained earnings	25,629	22,909
	162,800	146,109
	\$ 1,160,238	\$ 1,274,223

Signed on behalf of the Board



Terry Cooper, Chair



G. Penny Reeves, First Vice Chair

STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended December 31 <i>(thousands of dollars)</i>	2003	2002
Financial income		
Interest on securities	\$ 33,434	\$ 32,528
Interest on loans	7,058	4,428
	40,492	36,956
Financial expenses		
Interest on members' deposits	28,754	28,725
Interest on loans and notes	1,881	1,658
	30,635	30,383
Net financial income before provision for losses	9,857	6,573
Provision for credit and investment losses	330	100
Net financial income	9,527	6,473
Operating income (Note 12)	43,940	59,748
Operating expenses (Note 12)	42,453	57,688
Net operating income	1,487	2,060
Earnings before gain on sale	11,014	8,533
Gain on sale (Note 8)	—	3,875
Earnings before patronage dividends and income taxes	11,014	12,408
Patronage dividends (Note 14)	3,000	2,620
Earnings before income taxes	8,014	9,788
Income taxes (Note 15)		
Current income tax expense	2,158	2,225
Future income tax recovery	(55)	(25)
	2,103	2,200
Earnings for the year	5,911	7,588
Retained earnings, beginning of year	22,909	17,770
	28,820	25,358
Share dividends (Note 14)	(4,141)	(3,196)
Recovery of income tax on share dividends	950	747
Retained earnings, end of year	\$ 25,629	\$ 22,909

STATEMENT OF CASH FLOWS

Year ended December 31 <i>(thousands of dollars)</i>	2003	2002
Cash resources provided by (used in):		
Operating activities		
Earnings for the year	\$ 5,911	\$ 7,588
Items not affecting cash:		
Gain on sale (Note 8)	—	(3,875)
Depreciation and amortization	3,259	5,432
Future income taxes	(55)	(25)
Provision for credit and investment losses	330	100
	9,445	9,220
Changes in non-cash operating components		
Other assets	(1,879)	4,853
Accounts payable	2,393	61
	9,959	14,134
Financing activities		
Decrease in members' deposits	(117,922)	(87,848)
Decrease in loans and notes payable	(14,803)	(25,198)
Issuance of share capital, net of redemptions	13,971	8,070
Payment of share dividends	(4,141)	(3,196)
Reduction of income tax on share dividends	950	747
	(121,945)	(107,425)
Investing activities		
Proceeds on sale (Note 8)	1,250	2,625
(Increase) decrease in securities	(45,793)	75,538
Increase in loans	(63,768)	(30,978)
Acquisition of capital assets	(6,457)	(6,000)
Net assets sold to equity investment (Note 9)	7,202	—
	(107,566)	41,185
Decrease in cash resources	(219,552)	(52,106)
Cash resources, beginning of year	852,260	904,366
Cash resources, end of year	\$ 632,708	\$ 852,260
Cash resources consists of:		
Cash	\$ 29,499	\$ 23,612
Cheques and other items in transit	23,030	29,369
Securities maturing within three months	580,179	799,279
	\$ 632,708	\$ 852,260

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Credit Union Central Alberta Limited (Alberta Central) have been prepared in accordance with generally accepted accounting principles in Canada including the accounting requirements of the Superintendent of Financial Institutions Canada and Alberta Finance. The financial statements include the accounts of Alberta Central and its proportionate share in the assets, liabilities, revenues and expenses of its joint ventures, and reflect the following policies:

a) Securities

Securities are stated at cost, less any provision for losses. Discounts or premiums on purchase of securities are amortized over their remaining term.

b) Provision for losses

Alberta Central maintains allowances for impairment to absorb losses in its investment and loan portfolios. These allowances are determined by regular management reviews of each investment and loan to identify impairment. Specific allowances are recorded to reduce the carrying amount of investments and loans to their estimated realizable values. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the investments and loans. When the amounts and timing of future cash flows cannot be reliably established, estimated realizable values are determined by reference to the fair value of any underlying security or market price for loans and investments. In addition, a non-specific allowance is made in recognition that not all losses can be identified on an item-by-item basis.

c) Equity Investment

Alberta Central uses the equity method to account for an investment over which it exercises significant influence. Under this method, Alberta Central's share of the net earnings of the investment is recorded in operating income. The book value of the investment is adjusted for the share of earnings and distributions received from the investee.

d) Depreciation and amortization

Capital assets are depreciated on a straight-line basis over periods ranging from three to ten years.

e) Goodwill

Goodwill relating to certain joint venture operations is amortized on a straight-line basis over a period of ten years. Management annually reviews unamortized goodwill for possible impairment in value. To the extent the anticipated undiscounted cash flow from future operations of the related joint ventures is not sufficient to recover the unamortized goodwill, a write down would be recorded.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Income taxes

Alberta Central follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The future tax assets and liabilities are calculated using enacted tax rates that will be in effect when the differences are expected to reverse.

g) Derivatives

Derivatives are used to manage Alberta Central's exposure to interest rate risks associated with on-balance sheet financial instruments. Gains and losses from derivatives are recognized in earnings in the same period as the income or expense from the hedged position.

2. SECURITIES

(thousands of dollars)

	2003	2002
Government	\$ 77,681	\$ 136,671
Corporate	789,924	902,599
Credit Union Central of Canada	3,549	3,484
Mortgage pooling funds	6,055	6,028
	877,209	1,048,782
Less: non-specific allowance	(409)	(396)
	876,800	1,048,386
Accrued interest receivable	7,450	9,184
	\$ 884,250	\$ 1,057,570

In accordance with the National Liquidity Fund Agreement, \$170,287 (2002 – \$151,265) of these investments are maintained in a segregated safekeeping account.

Alberta Central has a contractual obligation to provide capital and liquidity support for credit card receivables held by Co-operative Trust Company of Canada. As at December 31, 2003 \$75,167 (2002 – \$73,667) of the above investments were made under this agreement.

3. LOANS

(thousands of dollars)

	2003	2002
Credit unions	\$ 86,615	\$ 54,961
Cooperatives	17,553	3,205
Commercial loans and mortgages	76,553	59,149
Employee mortgages	10,053	9,740
	190,774	127,055
Less: non-specific allowance	(615)	(298)
	190,159	126,757
Accrued interest receivable	417	368
	\$ 190,576	\$ 127,125

4. OTHER ASSETS*(thousands of dollars)*

	2003	2002
Accounts receivable	\$ 20,230	\$ 18,787
Prepays	132	1,647
Inventory	994	1,031
Deferred start-up costs	275	413
Goodwill	158	248
Future income tax	223	168
Other	432	687
	\$ 22,444	\$ 22,981

Accounts receivable includes \$5,414 (2002 – \$8,626) due from credit unions related to the purchase of bank branches in 2000.

Deferred start-up costs relate to a credit card program initiated in 2001 for the CUETS joint venture. These costs are being amortized over four years.

5. CAPITAL ASSETS*(thousands of dollars)*

		2003	2002
	Cost	Accumulated depreciation	Net book value
Equipment	\$ 4,413	\$ 3,038	\$ 1,375
Operating software and development costs	11,747	4,617	7,130
Leasehold improvements	4,122	3,137	985
Furniture and fixtures	2,462	1,513	949
	\$ 22,744	\$ 12,305	\$ 10,439
			\$ 13,566

6. MEMBERS' DEPOSITS*(thousands of dollars)*

	2003	2002
Current accounts	\$ 52,102	\$ 54,454
Demand deposits	1,123	1,198
Money market deposits	239,827	411,483
Statutory liquidity deposits	619,586	561,788
	912,638	1,028,923
Accrued interest payable	5,789	7,426
	\$ 918,427	\$ 1,036,349

7. LOANS AND NOTES PAYABLE

(thousands of dollars)

	2003	2002
Credit Union Central of Saskatchewan	\$ 9,154	\$ 454
Credit Union Central of Canada	—	23,515
Commercial paper	50,848	50,836
	\$ 60,002	\$ 74,805

Alberta Central has entered into an agreement with Credit Union Central of Canada for a line of credit to a maximum of \$50 million. Pursuant to the terms of the National Liquidity Fund Agreement, Alberta Central is obliged to provide a general security interest over Alberta Central's property on demand by Credit Union Central of Canada to secure this line of credit.

Alberta Central is authorized to issue commercial paper to a maximum of \$150 million.

The Credit Union Central of Saskatchewan loan is due on demand.

8. JOINT VENTURES

Alberta Central has interests in joint ventures as follows:

- CU Electronic Transaction Services – 50%, a credit card processing entity
- 3553256 Canada Inc. – 50%, a holding company
- Credit Union Payment Services – 50%, a payment processing entity
- Credit Union Organizational Support – 50%, a consulting services entity

Alberta Central's proportionate share of its investments in joint ventures before inter-entity eliminations is summarized below:

(thousands of dollars)

	2003	2002
Balance Sheet:		
Securities	\$ 11,167	\$ 11,167
Loans	543	—
Other assets	12,156	6,811
Capital assets	8,215	6,127
	\$ 32,081	\$ 24,105
Accounts payable	\$ 6,590	\$ 5,003
Loans and notes payable	20,831	12,205
Equity	4,660	6,897
	\$ 32,081	\$ 24,105

Statement of Earnings:

Operating income	\$ 34,181	\$ 30,316
Operating expenses	29,958	27,699
Earnings before gain	4,223	2,617
Gain on sale	—	3,875
Earnings for the year	\$ 4,223	\$ 6,492

8. JOINT VENTURES (continued)

(thousands of dollars)

	2003	2002
Statement of Cash Flows:		
Cash flows resulting from (used in):		
Operating activities	\$ 6,620	\$ 4,936
Financing activities	2,264	(3,819)
Investing activities	(8,828)	2,892
Increase (decrease) in cash resources	\$ 56	\$ 4,009

As part of a business restructuring, CUETS sold an interest in its merchant processing operations effective September 1, 2002. Alberta Central's share of this sale is as follows:

Note receivable – on closing	\$ 2,750
Note receivable – long term	1,250
Agreement incentive – on closing	125
Expenses incurred to initiate the sale	(250)
Net gain on sale of merchant processing business	\$ 3,875

9. EQUITY INVESTMENT

(thousands of dollars)

Alberta Central has a 33.4% interest in Celero Solutions (Celero) which was formed effective January 1, 2003 as a joint venture of Alberta Central and various other cooperative entities for the purpose of providing information technology services. While Celero is legally structured as a joint venture, it does not qualify as such for accounting purposes. Accordingly, Alberta Central accounts for its investment in Celero on the equity basis.

In connection with the formation of the joint venture, Alberta Central sold its information technology services business to Celero on January 1, 2003 for cash consideration of \$7,202 which was equivalent to the net book value of the related assets and liabilities. The assets sold included capital assets having a net book value of \$6,325.

Celero's operations are funded by loans from its owners. As at December 31, 2003, Alberta Central's loan to Celero was \$9,882 bearing interest at the prime rate. In addition, Alberta Central's accounts payable at December 31, 2003 includes \$2,047 owing to Celero in respect of operating activities. Alberta Central's share of Celero's operating deficit for the year ended December 31, 2003 amounted to \$968 and is included in operating expense.

10. COMMON SHARE CAPITAL

Authorized – unlimited number at \$5 per share.

Issued and outstanding – 27,434,000 shares (2002 – 24,640,000).

<i>(thousands of dollars)</i>	2003	2002
Balance, beginning of the year	\$ 123,200	\$ 115,130
Issued	13,993	8,145
Redeemed	(22)	(75)
Balance, end of the year	\$ 137,171	\$ 123,200

Alberta Central's bylaws require each member credit union to maintain common share capital in Alberta Central in an amount equal to one and one half percent (1.5%) of the credit union's assets as at the end of the credit union's most recent fiscal year.

11. INTEREST RATE SENSITIVITY

(thousands of dollars)

	Within 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	3 to 5 Years	Non-Interest Sensitive	Total
Assets							
Cash resources	\$ 29,499	\$ –	\$ –	\$ –	\$ –	\$ 23,030	\$ 52,529
Securities	580,179	50,193	163,656	46,941	10,715	32,566	884,250
Loans	112,321	22,627	30,838	20,046	4,942	(198)	190,576
Other assets	875	885	1,805	1,850	–	27,468	32,883
	\$ 722,874	\$ 73,705	\$ 196,299	\$ 68,837	\$ 15,657	\$ 82,866	\$ 1,160,238
Weighted average interest rate	3.01%	3.60%	3.05%	4.69%	4.18%		
Liabilities & members' equity							
Members' deposits	\$ 491,225	\$ 50,718	\$ 71,086	\$ 268,366	\$ 8,969	\$ 28,063	\$ 918,427
Loans and notes payable	59,809	–	–	–	–	193	60,002
Other liabilities	–	–	–	–	–	19,009	19,009
Members' equity	137,171	–	–	–	–	25,629	162,800
	\$ 688,205	\$ 50,718	\$ 71,086	\$ 268,366	\$ 8,969	\$ 72,894	\$ 1,160,238
Weighted average interest rate	2.67%	3.04%	2.70%	3.46%	7.96%		
Total interest rate sensitivity gap	\$ 34,669	\$ 22,987	\$ 125,213	\$ (199,529)	\$ 6,688	\$ 9,972	\$ –
Cumulative interest rate sensitivity gap	\$ 34,669	\$ 57,656	\$ 182,869	\$ (16,660)	\$ (9,972)	\$ –	\$ –

Alberta Central uses gap analysis and simulation modeling to monitor and manage interest rate risk. Gap analysis measures the difference between the amount of assets and liabilities that reprice in a particular time period.

11. INTEREST RATE SENSITIVITY (continued)

Alberta Central's interest rate sensitivity position as at December 31, 2003, as presented above is based upon the contractual repricing and maturity dates of assets and liabilities. The table shows the cumulative gaps at various intervals.

	2003		2002	
	Book Value	Fair Value	Book Value	Fair Value
Securities	\$ 884,250	\$ 885,825	\$ 1,057,570	\$ 1,059,444
Loans	190,576	192,240	127,125	128,957
Members' deposits	918,427	919,068	1,036,349	1,036,984
Loans and notes payable	60,002	59,997	74,805	74,804

Estimated fair value represents the value of these instruments based on interest rates in effect at the balance sheet date.

12. OPERATING INCOME AND OPERATING EXPENSES

	2003	2002
<i>(thousands of dollars)</i>		
Operating income		
Information services	\$ —	\$ 18,616
Financial services	11,638	11,546
Credit card processing	25,943	25,158
Member dues	2,536	2,344
Other	3,823	2,084
	\$ 43,940	\$ 59,748
Operating expenses		
Personnel	\$ 20,141	\$ 27,046
Property and equipment	4,163	14,169
Administration and other	16,581	14,821
Organization	1,568	1,652
	\$ 42,453	\$ 57,688

The 2003 operating income and operating expenses do not include the results of the information technology services transferred to Celero and are not comparable with 2002. Alberta Central accounts for its investment in Celero on the equity basis as explained in Note 9.

13. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Alberta Central's off balance sheet financial instrument position is summarized as follows:

<i>(thousands of dollars)</i>	2003	2002
Financial instruments whose contract could represent credit risk:		
Commitments to extend credit	\$ 776,062	\$ 627,390
Standby letters of credit and financial guarantees	3,215	3,001
Financial instruments whose notional amounts do not represent credit risk:		
For own account	\$ 35,835	\$ 32,407
As intermediary	699,417	364,048

Settlement of Alberta Central's financial instruments held for its own account at year end would result in a net receivable of \$607 (2002 – net payable of \$141).

14. DIVIDENDS

(thousands of dollars)

Share capital dividends of \$4,141 (2002 – \$3,196) were calculated using members' minimum monthly common share capital account balances and the average monthly prime interest rate less 1.50%.

Patronage dividends of \$3,000 (2002 – \$2,620) were calculated using a formula based on the usage of products and services provided by Alberta Central.

15. INCOME TAXES

The combined federal and provincial statutory income tax rate applicable to Alberta Central is 22.9% (2002 – 23.4%). Income taxes calculated at the statutory rate differ from the provision included in the statement of earnings for the following reasons:

<i>(thousands of dollars)</i>	2003	2002
Income taxes at the statutory rate	\$ 1,835	\$ 2,286
Increase (decrease) in income taxes resulting from:		
Tax on large corporations	268	241
Non-taxable portion of gain on sale	–	(336)
Other	–	9
Provision for income taxes	\$ 2,103	\$ 2,200

16. COMMITMENTS

Alberta Central has the following operating lease commitments which include lease commitments for occupancy and computer equipment:

(thousands of dollars)

2004	\$	3,581
2005		3,494
2006		2,973
2007		2,552
2008		2,527
2009 and Subsequent		7,580
	\$	22,707

17. PENSION PLANS

(thousands of dollars)

Alberta Central has established an unfunded, retirement income plan for executive management which provides a supplementary pension benefit. The projected benefit obligation, which amounted to \$859 at December 31, 2003 (2002 – \$831), has been provided for by annual charges to earnings.

Alberta Central contributes annually to a defined contribution pension plan for employees. The annual pension expense of \$829 (2002 – \$998) is included in personnel expense.

18. DIRECTORS' REMUNERATION

(thousands of dollars)

	2003	2002
Remuneration paid to directors	\$ 143	\$ 146
Expenses paid on behalf of directors	118	112
	\$ 261	\$ 258

ALBERTA CENTRAL FIVE YEAR REVIEW

BALANCE SHEET

As at December 31

(thousands of dollars)

	2003	2002	2001	2000	1999
Assets					
Cash and Securities	\$ 929,329	\$1,101,367	\$1,230,576	\$ 933,355	\$ 617,149
Loans	190,159	126,757	95,828	119,225	213,239
Other	40,750	46,099	47,595	42,905	26,943
Total assets	\$1,160,238	\$1,274,223	\$1,373,999	\$1,095,485	\$ 857,331
Liabilities and equity					
Deposits and Notes	\$ 972,640	\$1,103,728	\$1,216,078	\$ 954,796	\$ 725,569
Other	24,798	24,386	25,021	21,736	16,926
Equity	162,800	146,109	132,900	118,953	114,836
Total liabilities and equity	\$1,160,238	\$1,274,223	\$1,373,999	\$1,095,485	\$ 857,331

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the years ended December 31

(thousands of dollars)

	2003	2002	2001	2000	1999
Financial income	\$ 40,492	\$ 36,956	\$ 56,522	\$ 52,665	\$ 38,097
Financial expenses	30,635	30,383	48,579	42,912	30,272
Net financial income before provision for losses	9,857	6,573	7,943	9,753	7,825
Provision for credit and investment losses	330	100	138	281	25
Net financial income	9,527	6,473	7,805	9,472	7,800
Operating income	43,940	59,748	50,077	44,115	40,073
Operating expenses	42,453	57,688	47,285	42,690	39,925
Net operating income	1,487	2,060	2,792	1,425	148
Earnings before gain on sale	11,014	8,533	10,597	10,897	7,948
Gain on sale	—	3,875	—	—	—
Earnings before patronage dividends and income taxes	11,014	12,408	10,597	10,897	7,948
Patronage dividends	3,000	2,620	2,563	2,356	1,131
Earnings before income taxes	8,014	9,788	8,034	8,541	6,817
Income taxes	2,103	2,200	1,868	2,294	2,129
Earnings for the year	5,911	7,588	6,166	6,247	4,688
Retained earnings, beginning of year	22,909	17,770	15,233	13,311	12,207
	28,820	25,358	21,399	19,558	16,895
Share dividends	(4,141)	(3,196)	(4,820)	(5,885)	(5,019)
Recovery of income taxes on share dividends	950	747	1,191	1,560	1,435
Retained earnings, end of year	\$ 25,629	\$ 22,909	\$ 17,770	\$ 15,233	\$ 13,311

ALBERTA CREDIT UNIONS FIVE YEAR REVIEW

BALANCE SHEET

As at December 31

(millions of dollars)

	2003	2002	2001	2000	1999
Assets					
Cash and securities	\$ 1,400	\$ 1,476	\$ 1,651	\$ 1,465	\$ 1,171
Loans	7,467	6,568	5,681	4,986	4,389
Other	164	145	123	120	107
Total assets	\$ 9,031	\$ 8,189	\$ 7,455	\$ 6,571	\$ 5,667
Liabilities and equity					
Member deposits and borrowings	\$ 8,334	\$ 7,592	\$ 6,941	\$ 6,122	\$ 5,281
Other	39	34	34	32	24
Equity	658	563	480	417	362
Total liabilities and equity	\$ 9,031	\$ 8,189	\$ 7,455	\$ 6,571	\$ 5,667

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the years ended December 31

(millions of dollars)

	2003	2002	2001	2000	1999
Financial income	\$ 489	\$ 449	\$ 485	\$ 429	\$ 368
Financial expenses	213	198	251	225	189
Net financial income before provisions	276	251	234	204	179
Provision for losses	10	8	6	6	4
Net financial income	266	243	228	198	175
Other Income	81	73	66	58	52
Gross margin	347	316	294	256	227
Operating expenses	260	239	218	195	176
Earnings before patronage dividends and income taxes	87	77	76	61	51
Patronage dividends	21	20	22	19	16
Earnings before income taxes	66	57	54	42	35
Income taxes	15	13	13	10	7
Earnings for the year	51	44	41	32	28
Retained earnings, beginning of year	211	181	161	142	125
Share dividends and redemptions	(17)	(17)	(26)	(16)	(13)
Recovery of income taxes	2	3	5	3	2
Retained earnings, end of year	\$ 247	\$ 211	\$ 181	\$ 161	\$ 142

STATISTICAL

	2003	2002	2001	2000	1999
Members	636,973	623,112	587,705	561,273	530,242
Staff (FTE)	2,589	2,489	2,385	2,204	2,101
Branches	201	196	197	196	180
ATMs	224	204	198	183	166



Pierre Amyotte
NORTH REGION



Rene Dumas
REGION D



Cam Durham
NORTH REGION



Ernie Jacobson
REGION A



Gerry Kiehl
REGION B



Greg Nail
SOUTH REGION



Nigel Teucher
SOUTH REGION



Dave Weidner
REGION C

AlbertaCentral

BOARD OF DIRECTORS



Terry Cooper
REGION C
CHAIR



G. Penny Reeves
REGION A
FIRST VICE CHAIR



Rod Banman
REGION B
SECOND VICE CHAIR



Dennis Horrigan
NORTH REGION
SECRETARY



Marcel Chorel
SOUTH REGION
FIFTH EXECUTIVE
COMMITTEE MEMBER

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MANAGEMENT TEAM

Pat Dolan
ASSISTANT VICE PRESIDENT,
TREASURY

Susan Greenaway
CORPORATE SECRETARY

Judy Hammond
ASSISTANT VICE PRESIDENT,
PAYMENT SERVICES

Brent Johnson
ASSISTANT VICE PRESIDENT
& CONTROLLER

Mark McLeod
CORPORATE AUDITOR

Karen Niven
ASSISTANT VICE PRESIDENT,
ELECTRONIC PAYMENTS

Paul Rossmann
ASSISTANT VICE PRESIDENT,
ADMINISTRATION SERVICES